

THE OFFICE OF REGULATORY STAFF

DIRECT TESTIMONY & EXHIBIT

OF

SARAH W. JOHNSON

MARCH 23, 2018



DOCKET NO. 2018-2-E

**Annual Review of Base Rates for Fuel Costs for South
Carolina Electric & Gas Company**

DIRECT TESTIMONY AND EXHIBIT OF

SARAH W. JOHNSON

ON BEHALF OF

THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF

DOCKET NO. 2018-2-E

IN RE: ANNUAL REVIEW OF BASE RATES FOR FUEL COSTS

FOR SOUTH CAROLINA ELECTRIC & GAS COMPANY

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Sarah W. Johnson. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the State of South Carolina as the Deputy Director of Utility Services in the Utility Rates and Services Division of the Office of Regulatory Staff (“ORS”).

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received my Bachelor of Science from the University of South Carolina in 1995. Prior to my employment with ORS, I held a variety of positions supporting both regulated and deregulated utility operations for electric, natural gas, and telecommunication providers across the southeast. My duties included customer service, information technology, product marketing, and regulatory consulting.

I joined ORS in 2016 as Deputy Director of Utility Services. In this role I supervise the daily activities related to the technical areas of Distributed Energy Resources, solar leasing, and Demand Side Management and Energy Efficiency. I am also responsible for the daily operations of the ORS Consumer Services Division.

Q. HAVE YOU TESTIFIED BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA (“COMMISSION”)?

A. Yes. I have testified before the Commission in matters related to electric utility annual fuel clause proceedings.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to set forth ORS’s recommendations resulting from the examination of South Carolina Electric and Gas Company’s (“SCE&G” or “Company”) Distributed Energy Resource Program (“DERP”) expenses for the period of January 2017 through December 2017 (“Actual Period”), January 2018 through April 2018 (“Estimated Period”), and May 2018 through April 2019 (“Forecasted Period”).

Q. WHAT EXPENSES RELATED TO THE COMPANY’S DERP ARE INCLUDED IN THIS PROCEEDING?

A. Pursuant to S.C. Code Ann. § 58-39-130(A)(2) (2015), an electrical utility with an approved DERP may recover associated costs that are reasonably and prudently incurred, and pursuant to S.C. Code Ann. § 58-39-140(F) (2015), cost recovery shall remain in force until all approved DERP components have been recovered. The Company’s DERP was approved in Commission Order No. 2015-512, and the Company included in this filing actual and forecasted avoided and incremental costs for the period of January 1, 2017 through April 30, 2019.

Q. PLEASE EXPLAIN THE INCLUSION OF DERP AVOIDED COSTS TO BE RECOVERED IN THIS PROCEEDING.

A. According to S.C. Code Ann. § 58-39-140 (2015), payments for electricity provided under the DERP that are paid at avoided cost rates or rates negotiated pursuant to the Public

Utility Regulatory Policy Act of 1978 (“PURPA”), whichever is lower, are eligible to be recovered through the DERP avoided cost component.

The Company incurred DERP avoided costs during the Actual Period for Bill Credit Agreements (“BCAs”) paid to customers, purchased power from utility-scale solar facilities, and excess net energy metering (“NEM”) payments to customers. These costs were allocated using the same method the Company uses to allocate and recover variable environmental costs. Actual and Estimated DERP avoided cost totals are shown in ORS witness Smith’s Audit Exhibit GS-8.

Q. WHAT TYPES OF EXPENSES HAS THE COMPANY INCLUDED AS DERP INCREMENTAL COSTS?

A. The Company included costs in excess of avoided costs, administrative and general costs, NEM and BCA incentives, NEM future benefits, NEM performance based incentives, depreciation costs, and associated carrying costs. Actual and estimated cost totals are shown in ORS witness Smith’s Exhibit GS-9. Exhibit SWJ-1 reflects the under-recovered and total estimated and forecasted incremental costs.

Q. DID THE ORS FIND THE COMPANY’S DERP AVOIDED AND INCREMENTAL COSTS TO BE REASONABLE?

A. Yes. ORS met with Company personnel to discuss continued DERP implementation, to evaluate the prudence and reasonableness of expenses, and review the Company’s methodology for allocating and recovering DERP expenses. ORS found the Company’s DERP avoided and incremental costs to be reasonably and prudently incurred in implementing the Company’s DERP. As of this proceeding, the Company has met the Customer Scale and Utility Scale goals of Act 236, and has incurred reasonable expenses

to achieve those goals. ORS also reviewed the Company's Estimated and Forecasted DERP avoided and incremental costs, which include costs for implementation of the Company's Community Solar Program, and found them to be reasonable.

Q. PLEASE EXPLAIN THE DERP CHARGE PER ACCOUNT.

A. The fixed charge by which the Company proposes to recover DERP incremental costs ("DERP Charge") is determined by allocating DERP incremental expenses in the same way the Company allocates variable environmental expenses. The revenue is collected as a fixed charge per account to ensure that no account charge exceeds the annual recovery caps prescribed in S.C. Code Ann. § 58-39-150 (2015).

Q. WILL THE PROPOSED ANNUAL DERP CHARGES RECOVER ALL THE INCREMENTAL COSTS?

A. No. The proposed Residential and Large General Service DERP Charges will not recover all the incremental costs allocated to those customer classes. A full recovery of DERP incremental costs would require an annual DERP charge of \$16.90 for Residential customers and \$16,455.05 for Large General Service customers. However, the annual recovery caps prescribed in S.C. Code Ann. § 58-39-150 (2015) limit the amount Residential and Large General Service customers can be charged each year to \$12.00 and \$1,200.00 respectively. SCE&G's proposed annual DERP charge will recover all DERP incremental costs from Small and Medium General Service customers as the cost is under the \$120.00 annual recovery cap for that class.

Q. HOW WILL UNDER-COLLECTED INCREMENTAL COSTS BE TREATED?

A. Under-collected incremental costs will be treated in the same manner other fuel and fuel-related under collected balances are treated. The under-collection will earn carrying

costs until next year when it will be reallocated using each class's contribution to peak demand.

Q. DOES ORS HAVE ANY FURTHER RECOMMENDATIONS REGARDING THE AVOIDED COST COMPONENTS OR DERP CHARGES PROPOSED BY THE COMPANY?

A. No. ORS finds that the Company's calculations are in compliance with the Distributed Energy Resource Program Act and with the Commission's orders in previous DERP-related proceedings and supports the following annual proposed DERP Charges: Residential \$12.00, Small and Medium General Service \$64.39, and Large General Service \$1,200.00. Exhibit SWJ-1 details the totals by class.

Q. DID THE COMPANY UPDATE THE VALUE OF DISTRIBUTED ENERGY RESOURCES?

A. Yes. As shown in Company witness Lynch's direct testimony (page 27), SCE&G proposes a total value of NEM distributed generation of \$0.03329 over a one (1)-year planning horizon and \$0.03264 over a fifteen (15)-year planning horizon. The one (1)-year value is used by the Company to determine the NEM incentive. The Company then uses the difference between the one (1)-year value and fifteen (15)-year value to determine the NEM future benefits.

A significant change in the updated value of distributed generation is the reduction of the avoided capacity value to zero. ORS witness Horii discusses the Company's methodology and the change to avoided capacity in more detail in his testimony.

Q. IS THE COMPANY'S CALCULATION OF THE NEM INCENTIVE CONSISTENT WITH DOCKET NO. 2014-246-E?

1 **A.** Yes. The Company used the methodology approved in Commission Order No.
2 2015-194 to calculate the NEM incentive. SCE&G determined the difference between the
3 expected revenues from NEM customers with and without DERP. Once the revenue gap
4 was identified, the value of the customers' distributed generation was calculated using the
5 amount from the NEM tariff approved in Commission Order No. 2017-246 in Docket No.
6 2017-2-E. The outstanding revenue was divided by the number of kilowatt hours the
7 customers of each applicable rate schedule generated to calculate the NEM incentive.

8 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

9 **A.** Yes.

Office of Regulatory Staff
Calculation of DERP Charge
South Carolina Electric Gas Company
Docket No. 2018-2-E

(Over)/Under Recovery of DERP Incremental Costs
January 2017 through April 2018

| | Residential | Small and Medium General Service | Large General Service |
|----------------------------------|--------------------|---|----------------------------------|
| Cumulative (Over)/Under Recovery | \$886,240 | \$545,480 | \$439,565 |

(Over)/Under Recovery of DERP Incremental Costs
May 2018 through April 2019

| | Residential | Small and Medium General Service | Large General Service |
|----------------------------------|--------------------|---|----------------------------------|
| Cumulative (Over)/Under Recovery | \$9,730,173 | \$5,988,905 | \$4,826,051 |

Total DERP Charge
January 2017 through April 2019

| | Residential¹ | Small and Medium General Service | Large General Service¹ |
|--|--------------------------------|---|--|
| Cumulative Under-Recovery through April 2019 | \$10,616,413 | \$6,534,385 | \$5,265,616 |
| Number of Accounts | 628,180 | 101,480 | 320 |
| Annual Cost (\$) | \$12.00 | \$64.39 | \$1,200.00 |
| Monthly DERP Charge (\$) | \$1.00 | \$5.37 | \$100.00 |

¹ Residential and Large General Service monthly charges are capped in compliance with Act 236.